



# FINANCIAL INCLUSION: ISSUES, INITIATIVES AND PROGRESS IN INDIAN CONTEXT

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## ABSTRACT

Financial inclusion as the term suggests is inclusion of each and every section of the society to the access of credit, particularly focusing on the section which remained excluded. Financial Inclusion helps in achieving sustainable development of the country, through making available financial services to the unreached people. Structure of Financial services plays an eminent role in the growth of an economy. In the Indian context, the term 'financial inclusion' was used for the first time in April 2005 in the Annual Policy Statement presented by Y. Venugopal Reddy, the then Governor, Reserve Bank of India. This paper helps in studying the present scenario of Financial Inclusion in India, and the various efforts and initiatives taken by the RBI, GOI and other banking institutions towards it.

**KEYWORDS:** Banking, Business Correspondents, RBI, ATM, Financial Inclusion.

## 1. Introduction

Financial Inclusion is the process of ensuring access to appropriate financial products and services needed by all sections of the society in general and vulnerable groups such as weaker sections and low-income groups in particular at an affordable cost in a fair and transparent manner by mainstream institutional players". Generally this concept is used to eradicate the financial exclusion means covering the sections of the economy which are particularly excluded from financial services. The Government of India and the RBI have been making concerted efforts to promote financial inclusion as one of the important national objectives of the country.

## 2. Methodology

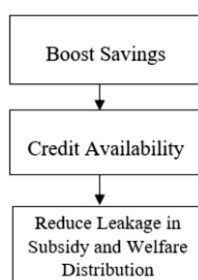
This study is basically exploratory in nature. In order to attain the objectives of the study the methodology is based mainly on analysis of secondary data. The Secondary data has been collected from different sources like

Articles, research papers, and the government website, Reserve Bank of India website and websites of public and private sector banks.

## 3. Objectives

- To study the importance of Financial Inclusion
- To study the present structure of Financial Inclusion
- To study the various initiatives taken in this regard

## Why is financial inclusion needed in India? - (A Graphical Representation)



## 4. Challenges to this concept of Financial Inclusion

- Hesitance to go to bank-Poor people are hesitant to go to banks, either because the banks are not in their reach, they particularly have very little savings, and for depositing the same to bank sometimes cost high to them.
- Environmental and social issues-Illiteracy, language and communication problems, lack of awareness, transparency and trust.
- Prohibitive costs for banks-Even banks find it difficult to serve the excluded population due to lack of infrastructure, staff availability, security issues, low value and low volume of transactions.

## 5. Current Scene or Progress under Financial Inclusion

Financial Inclusion in India and the journey so far and the way ahead (Shri S.S. Mundra, Deputy Governor-September 19,2016 – at the BRICS workshop on Financial Inclusion in Mumbai).

- Increase in the number of banking outlets in villages from 67,694 in March

2010 to 5, 86,307 in March 2016 after RBI permitted appointment of BCs.

- The Basic Savings Bank Deposit Accounts (BSBDAs) have gone up from 73 million in March 2010 to 469 million as on March 31, 2016. Under the PMJDY alone, until June 1, 2016, 220 mn accounts have been opened with an approximate balance of Rs. 384 bn.
- There were 47.31 million small farm sector credit accounts and 11.3 million small non-farm sector credit accounts with an outstanding of Rs. 5130.7 billion and Rs. 1493.3 billion outstanding respectively as on March 31, 2016. The number of small farm and non-farm sector credit accounts stood at 24.3 million and 1.4 mn respectively in March 2010.
- The total number of transactions in BC-ICT accounts which were around 26 million during 2010-11 has increased to 826.81 million as on March 31, 2016.

## 3. Case Studies: An Analysis

### a) State Bank of India

It is the largest public sector bank in India. According to a State Bank of India (SBI) report, the vision is to "gradually move in a direction where every poor person is able to operate his bank account from his mobile, as mobile penetration is higher than financial services penetration." Low-income populations benefit the most from technological innovations such as mobile payments, mobile banking and borrower identification based on fingerprinting and iris scans, reported the World Bank. "Innovations make financial services cheaper and easier to access for the poor, women and rural residents, especially those living in remote, less populated regions without brick-and-mortar bank branches," says the Bank's 2014 "Global Financial Development Report."

## Financial Inclusion - Quantitative progress

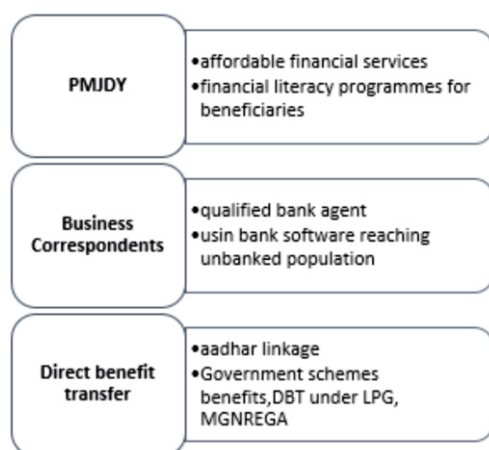
|    |   |                     | Year ended<br>March<br>2013 | Year ended<br>March<br>2014 | Month ended<br>March<br>2015 |
|----|---|---------------------|-----------------------------|-----------------------------|------------------------------|
| SR | Particulars   |                     |                             |                             |                              |
| 1  | Total No. of Branches                                     |                     | 14,816                      | 15,869                      | 16,333                       |
| 2  | Out of 1 above, No. of Rural Branches                     |                     | 5,686                       | 6,056                       | 6,257                        |
| 3  | No. of branches in unbanked villages                      |                     | 358                         | 540                         | 631                          |
| 4  | No. of banking outlets in villages with population > 2000 | Through Branches    | 4,163                       | 4,468                       | 4,578                        |
| 5  |   | Through BCs         | 15,144                      | 14,229                      | 14,231                       |
| 6  |   | Through Other Modes | 2                           | 2                           | 0                            |
| 7  |   | Sub Total : > 2000  | 19,309                      | 18,699                      | 18,809                       |
| 8  | No. of banking outlets in villages with population < 2000 | Through Branches    | 1,523                       | 1,588                       | 1,679                        |
| 9  |   | Through BCs         | 17,805                      | 49,469                      | 81,137                       |
| 10 |   | Through Other Modes | 0                           | 0                           | 0                            |
| 11 |   | Sub Total : < 2000  | 19,328                      | 51,057                      | 82,816                       |
| 12 | Total Banking Outlets in all villages                     |                     | 38,637                      | 69,756                      | 101,625                      |

The table above shows that there has been a notable increase in the no. of banks branches opened by the bank from 2013 to 2015, 1517 new branches were opened, of which 571 were opened in rural areas which is approximately one-third. Around 273 new branches of the total were opened in unbanked villages.

Banking outlet could be referred as the way of reaching the ultimate customers, through number of sources like opening branches, business correspondents or business agents or other modes as decided by competent authorities, now this section has been divided into two parts by the SBI, one is the villages having population above 2000 and second is less than 2000. Though we see reduction the number of banking outlets in the villages with population more than 2000, but there has been a good increase in the number of banking outlets in villages with population less than 2000 which is 63488, as per data above. And overall also there is increase of 62988 in the number of banking outlets in all villages from 2013 to 2015.

#### b) Punjab National Bank

Another major public sector bank is PNB. The following areas are considered under the concept of financial inclusion by this bank.



Under the Pradhan Mantri Jan Dhan Yojana (PMJDY), PNB aims at providing banking facilities to the required with overdraft facilities (Rs. 5000/-) and RuPay debit card, making beneficiaries aware about the financial services provided to them through literary programmes, reaching the unbanked population through business correspondents where opening of branch may not be possible and making the required benefits directly reach the needy eliminating the intermediaries.

#### Financial inclusion plan of PNB

| S.No. | Particulars                           | Position March 2016 | Target March 2019 |
|-------|---------------------------------------|---------------------|-------------------|
| 1     | Banking outlets- Branches             | 6416                | 7466              |
| 2     | Banking outlets-BC's                  | 7996                | 14000             |
| 3     | No. of banks in underbanked districts | 2531                | 2741              |
| 4     | No. of branches in unbanked villages  | 366                 | 636               |
| 5     | No. of ATM's- onsite                  | 3915                | 10725             |
| 6     | No. of ATM's- offsite                 | 4287                | 6275              |
| 7     | SHG accounts (No. in lacs)            | 1.00                | 1.75              |

From the above that we can state that PNB is also playing its role in the successful implementation of the financial inclusion plan of the government. It has a complete four-year plan for coverage of mass unbanked population under formal banking through increase in the number of branches, business correspondents, ATMs, Self-help groups (SHGs). Not only it has plan to increase the number of outlets it also plans to increase in the number of savings accounts, financial inclusion products like Micro-insurance, pension, etc. and increase in the number of valuable transactions.

#### c) ICICI Bank

ICICI is the largest private sector bank in India and offers a wide range of banking products and financial services, and the same time have a mission to promote inclusive growth in India through focused initiatives in the identified areas including primary healthcare, elementary education, skill development and sustainable livelihood, financial inclusion and rural development.

#### Financial Inclusion efforts of the Group

- **Financial Literacy Programme:** Financial literacy is the first step to achieve financial inclusion, creating the need to seek and receive financial services and products. To increase awareness about organized banking and insurance channels, ICICI Foundation provides a Financial Literacy Programme.

- **Direct Lending to the BOP through ICICI Bank's Microfinance Programme:** With a portfolio of Rs.9.6 billion and a client base of 3.5 million, ICICI Bank's micro finance programme is one of the largest among private sector banks in India. Our micro finance portfolio scaled up rapidly with the use of an innovative financing structure, the "Partnership Model" (described under the section on innovations). The key social benefit resulting from this financing structure has been the rapid scale-up of the operations of smaller MFIs in India at a time when most of the industry faced severe capital constraints. In 2007, there were only 5 MFIs in India with a minimum base of 5,00,000 customers. To universalize access to finance, ICICI Group adopted a strategy to seek the development of many more MFIs. The Emerging MFI Team, Social Initiatives Group and Centre for Microfinance at Institute of Financial Management & Research (IFMR) work in collaboration in this area. The Social Initiatives Group acts as a catalyst for the development of appropriate channels, products and an environment that makes basic formal financial services accessible to the poorest clients. This has resulted in partnership with venture capital funds engaged in the task of identifying and providing equity finance and mentoring new entrepreneurs and product development.

- **Beyond Microcredit:** Micro-savings: Recognizing the need for easy savings facilities for its low-income customers, ICICI Bank has launched a micro-savings facility under its "business correspondent" model. A state-of-the-art solution based on a biometric-enabled smartcard and a battery-operated authentication device developed by an ICICI partner, the customer also gets doorstep banking through business correspondents. Apart from this savings account, the bank also offers recurring and fixed deposits to enable customers to avail of higher return on their savings. Today, ICICI Bank works with 41 business correspondent partners operating out of 127 branches across the country, serving over 77,000 customers.

- **Micro Insurance:** The perpetual uncertainties in the income cycle of the poor increases their vulnerability to economic shocks, thereby reducing their risk appetite. ICICI Prudential Life Insurance's ([www.iciciprulife.com](http://www.iciciprulife.com)) provision of micro-insurance services has promoted financial security among the rural poor and increased their comfort to avail credit facilities (micro-credit) for undertaking income-generating activities. Increased credit worthiness results in availability of low cost capital that is employed in entrepreneurial activities. Similarly, ICICI Lombard ([www.icicilombard.com](http://www.icicilombard.com)) provides a range of non-life insurance products, including health, weather and cattle insurance to help mitigate the impact of other contingencies such as illness and crop failure.

- **Government Welfare Schemes:** ICICI Lombard has worked on the premise that the governments' social and welfare initiatives can be outsourced for better implementation and has focused on mass-based social and employee welfare schemes. ICICI Lombard has structured need-based, cost effective insurance solutions for a number of state governments and ministries of the Government of India covering around 89 million lives for Personal Accident insurance and Health insurance. A key challenge was to offer service of a consistent quality across geographies and to all strata of customers in a timely and transparent manner. The benefit for the Government has been the transfer of risk to ICICI Lombard, greater accountability, transparency and reporting as well as removal of leakage in the process. In acknowledgment of ICICI Lombard's learnings in this area, the Government's recently launched National Health Insurance Scheme (Rashtriya Swasthya Bima Yojana) was designed with key inputs from ICICI Lombard. ICICI Lombard has also insured over 6.5 billion rail passengers who use the Indian Railways train services, for Personal Accident insurance.

#### d) Pradhan Mantri Jan - Dhan Yojana

PMJDY is the scheme introduced by the Prime Minister of India Dr. Narendra Modi on 15 August 2014 with a mission of financial inclusion ensuring access to financial services.

#### Accounts Opened as on 15.03.2017 (All Figures in Crores)

| Bank Name           | Rural | Urban | Total | No of Rupay Cards | Aadhaar Seeded | Balance in Accounts | % Of Zero-Balance-Accounts |
|---------------------|-------|-------|-------|-------------------|----------------|---------------------|----------------------------|
| Public Sector Bank  | 12.30 | 10.18 | 22.48 | 17.55             | 14.70          | 49815.49            | 23.96                      |
| Regional Rural Bank | 3.97  | 0.66  | 4.63  | 3.51              | 2.69           | 11840.69            | 20.72                      |
| Private Banks       | 0.55  | 0.36  | 0.91  | 0.84              | 0.43           | 2180.47             | 35.56                      |
| Total               | 16.82 | 11.20 | 28.02 | 21.90             | 17.82          | 63836.65            | 23.80                      |

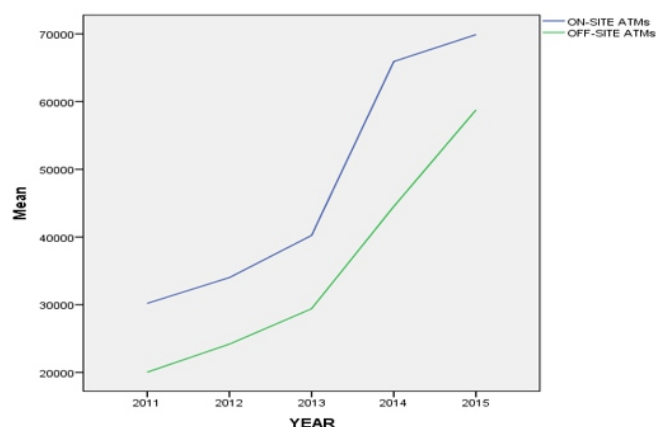
**Disclaimer:** Information is based upon the data as submitted by different banks/SLBC

The above table particularly states about the initiatives taken under the Pradhan Mantri Jan Yojana as up to 15/03/2017, no. of accounts opened by public, private and RRB's in Crores. Public sector has opened maximum number of bank accounts as compared to RRBs and Private Banks in both rural and urban areas and also has linked more aadhar cards and issued more number of repay cards as compared to other two. Out of the total accounts opened by public sector banks 23.96% are zero balance accounts and other accounts holds Rs. 49815.49 crores. Similarly, figures are shown for the other two types of the banks.

#### e) Position of ATMs deployed by PSBs and SCBs during the last five years

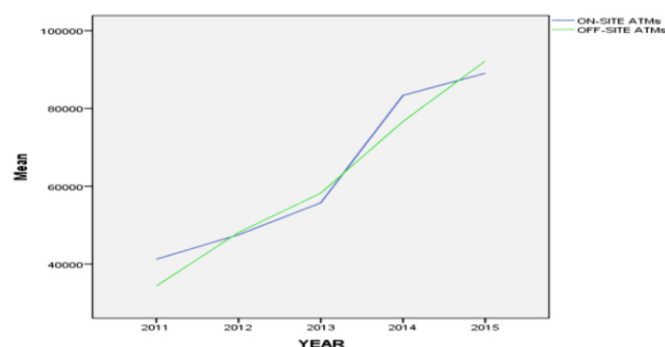
##### • Number of ATMs of Public Sector Banks (PSBs):

| YEAR | ON-SITE ATMs | OFF-SITE ATMs |
|------|--------------|---------------|
| 2011 | 30201        | 20032         |
| 2012 | 34012        | 24181         |
| 2013 | 40241        | 29411         |
| 2014 | 65920        | 44504         |
| 2015 | 69902        | 58763         |



The graph shows that there has been a continuous growth in the number of ATMs deployed by the Public-sector banks from year 2011 to 2015.

##### • Number of ATMs of Scheduled Commercial Banks (SCBs):



The graph shows that there has been a continuous growth in the number of ATMs deployed by the Scheduled Commercial banks from year 2011 to 2015.

#### Suggestions/Way Forward

- Banks have been playing a significant role in the mission of Financial Inclusion through number of ways bringing the unbanked population to the formal system of banking, for savings and providing other benefits.
- Moreover, ways should be developed to check of the actual implementation of various initiatives at the ground level so that further improvements could be made as per requirements.
- In order to make the mission of financial inclusion a success the need is to provide suitable products to the ultimate customers as until unless the customer finds the schemes or products beneficial to them they will not accept it.
- There should be transparency in the process. Transparent processes result in greater trust and confidence in the financial system.
- Both the suitable products, and the transparent processes need to be complemented by committed people who are willing to listen keenly, empathize with the consumers and willing to walk that little extra to welcome the customers into the formal financial system.
- The present study covers the study of few cases basically banks and initia-

tives taken by them towards the process of financial Inclusion, what role they are playing and through what all ways, presenting the data through figures taken from the relevant sources.

- Further study could be done in covering more banks and their plans with respect to financial inclusion, or study could be done through customer prospective that how they take this concept and what are their expectations in this regard.

#### 7. Conclusion

It could be finally concluded that though number of efforts are being made through banks, financial entities and various kinds of schemes being implemented in this regard, Financial Inclusion is a vast process and could be achieved only through joint efforts between all the financial entities and policy makers. It's the time to eradicate the concept of financial exclusion through financial Inclusion and moving towards framing a better picture of our economy, bringing each and every individual within the reach of formal system of banking. This is where the efforts of the Government and RBI are currently focused. Technological innovations and transparency in the system could help in achieving this in early and better way. For building awareness among the unbanked population E- banking, mobile banking and education programmes should be conducted. Lastly it could be said that a lot has been done and a lot is still needs to be done.

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